

The DRAFT Audit Findings for Leicester City Council

Year ended 31 March 2021

Leicester City Council

29 September 2021



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This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and will be discussed with the Audit and Risk Committee.

Name : Grant Patterson
For Grant Thornton UK LLP

Date :

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Leicester City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work has been conducted remotely from June to date. Our findings are summarised on pages 4 to 24. 3 adjustments have been identified to the financial statements, none of which have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement.

Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

There are a number of matters still underway as at the time of writing but from the work done to date there are no matters of which we are aware that would require modification of our audit opinion (for draft wording please see separate Committee agenda item) or material changes to the financial statements, subject to satisfactory resolution of the outstanding matters, as set out on the page 6.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified, but we will be unable to certify the audit closed until our work on the whole of government accounts is complete and we have issued our Annual Auditor's Report (covering our work on the Council's value for money arrangements).

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 31 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our planning work, we considered whether there were any potential risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a potential risk in respect of financial sustainability. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

However, we received an email from a taxpayer on 8 September asking us to consider a matter. We are:

- liaising with them further to inform them of their statutory rights and the proper challenge procedures, and
- considering whether the information provided requires investigation under the Code of Audit Practice.

We will keep the Audit and Risk Committee abreast of this matter.

We expect to certify the completion of the audit upon the completion of our work on the Council's Value For Money arrangements, which will be reported in our Annual Auditor's Report, as well as the completion of our work on the Whole of Government Accounts procedures.

Significant Matters

Management's assumptions and estimates

The revised auditing standard in relation to estimates has led to heightened scrutiny over the estimates in the accounts, particularly property and pension valuations.

For property valuations in particular, there has been significant enquiry and challenge with both sets of valuers over the inputs and assumptions applied, as discussed on pages 11 to 12, 16 and 18, and our work in these areas is incomplete pending receipt of outstanding responses to our queries and our consideration thereof.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you in July 2021, though we have performed additional work in relation to findings made by the work of our IT specialists on the Council's IT general controls and clarified the specific significant risk in respect of the Council's net pension liability valuation. Please refer to pages 3 & 4 and 13 for more detail.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion pending satisfactory conclusion of all outstanding matters. The outstanding matters are listed overleaf and are as at the time of writing. We will update the Committee verbally of progress against these matters at the meeting on 29 September.

Acknowledgements

The impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again in respect of remote access working arrangements i.e. video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely produced by the Council, access to key data (which we would otherwise just view in person) etc.

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff, and look forward to working face to face again in future, when Covid restrictions allow and when new working arrangements are established and confirmed.

2. Financial Statements

Status of the audit: the outstanding matters as at the time of writing are set out below.



- receipt of responses from the Council's internal valuer on our queries and our consideration thereof
- completion of our work on the valuation of land and buildings
- receipt of the updated IAS19 valuation report, which will require the Council to amend the accounts and us to redo an element of our work on the valuation of the net defined benefit pension liability
- final manager and engagement lead review of all of the above once completed



- receipt of IAS19 assurances from the pension fund auditor
- completion of our work on the Expenditure and Funding Analysis
- completion of our consideration of the Council's minimum revenue provision
- final manager and engagement lead review of the above once completed



- response to our query in respect of infrastructure assets depreciation
- receipt of the updated disclosure of accounting standards issued but not yet adopted, with regard to IFRS 16
- receipt of the Council's WGA pack and completion of our procedures thereon
- receipt and review of the updated financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

Status

- High potential to result in material adjustment or significant change to disclosures within the financial statements
- Some potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

We detail in the table below our determination of materiality for Leicester City Council.

	Materiality	Qualitative factors considered
Materiality for the financial statements	£15.250m	<p>We determined materiality for the audit of the Council's financial statements as a whole to be £15,250,000, which is approximately 1.5% of the Council's gross operating expenses.</p> <p>This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.</p>
Performance materiality	£9.912m	<p>We use a different level of materiality, performance materiality, to drive the extent of our testing. Our consideration of performance materiality is based upon a number of factors:</p> <ul style="list-style-type: none"> • We have not historically identified significant control deficiencies as a result of our audit work • We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment • There have been prior period errors in previous years, as well as £13m unadjusted misstatement from findings in relation to Property, Plant and Equipment in 2019-20 • Senior management and key reporting personnel in the finance function has remained reasonably stable from the prior year audit <p>On this basis we have reduced the performance materiality from a possible 75% (standard threshold) to 65%.</p>
Trivial matters	£0.762m	<p>We determined the threshold at which we will communicate misstatements to the Audit and Risk Committee to be £762,500, which is approximately 5% of materiality.</p>
Materiality for senior management remuneration	£0.025m	<p>We consider the disclosures of senior manager's remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts.</p>

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Management over-ride of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determined the criteria for selecting high risk unusual journals identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness <p>As in the prior year we noted that there is a lack of established approval process for journals; instead placing reliance on the Council's day-to-day activities to identify any journals that were posted incorrectly.</p> <p>Since November 2019 the Council has put in arrangements which mitigate this deficiency to a certain extent. Each individual journal is still not counter signed but since November all journals posted in the month are downloaded and split by the department which posted them. The principal accountant of the relevant department who posted them then picks a sample to review, making sure they should have been posted and are correct. This review is signed and dated by the principal accountant and returned to the corporate finance team. We have seen this process and are content it is working as designed.</p> <p>From the sample testing of journals undertaken we have found that they were appropriate, eligible and valid, and can be agreed to supporting evidence.</p> <p>Our approach to this work was informed by the findings made by IT audit specialists from their review of the Council's IT general controls. IT audit undertook a design and implementation review of the following applications, which were scoped into the review on the grounds that they impact the financial reporting of the Council:</p> <ul style="list-style-type: none"> i-Trent (HR and payroll system) Civica (Housing Benefits) Unit-4 (General ledger) Active Directory (domain controller authenticating and authorising users and assigning and enforcing security policies, eg password control)

2. Financial Statements - Significant risks

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This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management over-ride of controls (continued)	<p>We considered whether administrative access to i-Trent and Unit 4 had been granted to users who also have financial responsibilities, as the combination of financial responsibilities with the ability to administer end-user security is considered a segregation of duties conflict. It increases the risk of these elevated privileges being used to make unauthorised changes to the application, business processes or user accounts by over-riding internal system controls, which could lead to fraud and/or financial misstatement. Three recommendations were raised which are under review by management and our IT Audit Team (which are included within Appendix A of this report).</p> <p>For more in-depth consideration of the Council's judgements and estimates please refer to pages 16 to 19.</p> <p>We have no further findings to report from the work conducted.</p>
Risk of fraud in revenue recognition and expenditure Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We concluded that there is no risk of material misstatement due to fraud relating to revenue recognition and therefore rebutted this risk. We have also considered and rebutted the risk of improper recognition of operating expenditure	<p>We:</p> <p><u>Accounting policies and systems</u></p> <ul style="list-style-type: none"> evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code updated our understanding of the Council's business processes associated with accounting for income <p><u>Fees, charges and other service income</u></p> <ul style="list-style-type: none"> agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence <p><u>Taxation and non-specific grant income</u></p> <ul style="list-style-type: none"> conducted substantive analytical procedures for predictable income streams such as national non-domestic rates and council tax for other grants we sampled items back to supporting information and subsequent receipt, considering accounting treatment where appropriate designed tests to address the risk that income has been understated, by not being recognised in the current financial year

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Risk of fraud in revenue recognition and expenditure (continued)	<p data-bbox="573 536 698 560"><u>Expenditure</u></p> <p data-bbox="573 576 1057 600">For further detail see commentary on page 14.</p> <p data-bbox="573 616 873 639"><u>Accounting for Covid grants</u></p> <p data-bbox="573 655 2063 855">There has been additional work required this year compared to what would ordinarily be the case due to the significant additional funding received during the year to assist the Council in responding to the pandemic. The Council notes in the Narrative Report that it has received £105.7m of Covid grants for which it is acting as an agent. It is important to determine whether the authority is acting as principal or agent as different accounting treatment follows. An authority acts as an agent when it does not control goods or services before they transfer to the service recipient. In this instance, transactions are not included in an authority's financial statements. We reviewed the grants comprising the £105.7m and were satisfied based on our review, that it was appropriate for the relevant income and expenditure to not be recognised in the financial statements.</p> <p data-bbox="573 871 2092 927">Note 35 is where the covid grants, for which the Council has determined it is acting as principal, are disclosed, of which there are approximately £94m. We have sampled these grants as part of our overall grants testing procedures and are satisfied with the treatment thereof, including:</p> <ul data-bbox="573 943 2078 1102" style="list-style-type: none"> • whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all • the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income • consideration of the impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES, (ie as taxation and non-specific grant income, or as part of cost of services). <p data-bbox="573 1118 1447 1142">Our audit work has not identified any issues in respect of revenue recognition.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of land and buildings (including council dwellings)

Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. The Council revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date.

This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

We have therefore identified the valuation of land and buildings revaluations and impairments as a risk of special audit consideration.

Commentary

We:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the evaluation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- wrote to the valuer to confirm the basis on which the valuations were carried out
- engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register
- evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

We note that the internal valuer (who was responsible for valuing other land and buildings) had not physically observed the assets, and therefore we paid consideration to how impairment and or/obsolescence was considered in the absence of a physical inspection. The external valuer (who was responsible for valuing Council Dwellings) had physically inspected all beacon properties as part of their valuation.

A significant amount of work was undertaken as part of our audit challenge in the prior year involving a significant amount of time and effort both on our part as well as on the part of the Council's estates team, finance team and valuer, which resulted in recommendations being made in our 2019/20 Audit Findings Report in relation to the valuation process. The Council has undertaken an increased amount of its own quality assurance processes for this year including challenging the valuations as they are received by identifying any unusual year on year movements in order that they are able to understand the reasons for any variances.

This challenge has been enhanced this year, both to take into account the findings last year, but also to reflect the increased requirements on both ourselves and management as a result of the revised auditing standard being in place in respect of estimates.

From our work to date we have identified the following:

Valuation of land and buildings

- included in the valuation of other land and buildings is St Margaret's Bus Station. This asset was demolished just prior to the period end and as such an impairment should have been recognised. This means that the value of land and buildings is overstated by £10.1m in the draft financial statements. Officers recognised this error while following up an audit query.
- Within assets under construction, there is a balance of £2.5m, relating to the Waterside Primary Project. Feasibility studies were carried out in 2018/19 which identified significant ground contamination and the project was subsequently aborted. This means that the value of assets under construction is overstated by £2.5m in the draft financial statements.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of land and buildings (including council dwellings)
(continued)

Commentary

- We met virtually with members of the Estates team to verify the gross internal areas (GIA) used in the valuation of our sample of properties within other land and buildings. We noted that in two of our samples, there were apparent differences between the GIAs used in the valuation compared to those shown in the Authority's property records. This is because previous period re-measurements, which had been noted on property records, had not been taken into account in the valuation calculations. This has resulted in the understatement in value for one property of £0.4m and the overstatement of value in the other of £1.5m.
- From review of the Council's fixed asset register we have identified that there are 880 assets with a gross book value of £35.8m which have no remaining useful economic life. The net book value of these assets is £nil, so they have no impact on the financial statements. We recommend that Council review assets with no useful economic life remaining and take action as appropriate based on their findings.

We still have outstanding queries in this area, and therefore there may be more findings to report to you when the work is complete.

Valuation of Council Dwellings

The valuation report for Council dwellings does not reflect Council Dwelling Asset additions made between the date at which the information was provided to the valuer and the year end. The Council have attributed their own value to these properties, effectively including them at historic cost (using the purchase price) as a proxy for fair value.

Our expectation is that the value of Council Dwellings recognised on the Balance Sheet is consistent with the valuation as reported by the Council's external valuer and should include the full housing stock as at the balance sheet date, i.e. including any additions purchased in year, irrespective of when they took place.

We are satisfied, that given that the value of the additions included in the financial statements is £1.9m, the value of council dwellings cannot be materially misstated in this regard.

We still have outstanding queries in this area, and therefore there may be more findings to report to you when the work is complete.

Please refer to pages 16 to 19 for an assessment of the estimation process applied.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of net pension fund liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.

Commentary

We:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

We identified no findings from our work in this regard, though for the reasons set out below we note that our work in this area is incomplete.

The Council has been notified by the Pension Fund Administrators that revised IAS19 valuation reports are required, which may mean that the Council's pension disclosures need to be updated because of material differences between the original valuation and the updated one. This is because when the pension fund accounts were compiled they included two estimates for hard to value assets. Due to the nature of these investments the actual valuations are not available for many months after year end. The actual valuations have now been received and these show a significant improvement over the estimates used, by over £35m. The actuary is providing updated valuation reports to reflect the actuals but they are not available as at the time of writing. As the Council's share is approximately 30% of the total fund the impact of this update on its accounts is likely to be material, and therefore an adjustment will be required.

We also note that we have sought assurances from the auditor of the Leicestershire County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. This information is outstanding as at the time of writing.

2. Financial Statements – other risks

Risks identified in our Audit Plan

Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses.

Management uses judgement to estimate accruals of un-invoiced costs.

We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention.

We are also applying specific focus to the occurrence of expenditure and existence of payables, to mitigate the risk that expenditure has been incorrectly recognised in order to seek to take advantage of the additional funding which has been available to the Council during the 2020/21 financial year.

Commentary

We:

- evaluated the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness
- gained an understanding of the Council's system for accounting for non-pay expenditure, including walking through the process to determine that it was operating as expected
- applied elevated risk procedures and tested a sample of balances included within trade and other payables
- tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period
- tested a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period.

We have no matters to report from our work in this area.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>IFRS 16 implementation</p> <ul style="list-style-type: none"> Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies may still like to include disclosure in their 2020/2021 statements. 	<p>The disclosure in the draft accounts notes that IFRS 16 is an existing standard which has been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom.</p>	<p>While the implementation has been deferred, given the significance this new standard is likely to have on the financial statements when it is introduced, we have recommended that the disclosure be enhanced. This will include the relevant information including a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements, or if that impact is not known or reasonably estimable, a statement to that effect.</p>
<p>IT Control deficiencies</p> <ul style="list-style-type: none"> To obtain an understanding of the information systems relevant to financial reporting, IT Audit specialists were deployed to complete a design and implementation review of IT general controls of the following applications: <ul style="list-style-type: none"> i-Trent Civica Unit-4 Active Directory 	<ul style="list-style-type: none"> The following tasks were completed as part of this review: <ul style="list-style-type: none"> IT General Controls Testing: Design, implementation assessment over controls for security management; technology acquisition development and maintenance; and technology infrastructure. Performed high level walkthroughs, inspected supporting documentation and analysis of configurable controls in the above areas. Documented the test results and provided evidence of the findings to Leicester City Council's IT function's management for remediation actions where necessary. 	<p>We have raised recommendations as a result of this work, which are included within Appendix A.</p>

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £1,073.3m	<p>Other land and buildings includes specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has an in-house valuer to complete the valuation of properties as at 31 March 2021. The Council carries out a rolling programme of valuations that ensures that all property and land (subject to a de minimis of £10k for asset values) required to be measured at current value is revalued at least every five years.</p> <p>The total net book value of Other land and buildings was £1,073.3m, a net increase of £0.5m from 2019/20 (£1,072.8m).</p> <p>The total net book value of surplus assets was £68.8m, a net decrease of £4.8m from 2019/20 (£73.6m).</p> <p>Management and their valuer have taken into account available market data, and considered a range of available indices, and have used this to determine an appropriate estimate for the indexation of the Council's land and buildings.</p>	<p>In the initial valuation report the valuer disclosed a material uncertainty in the valuation as a result of Covid-19. This is consistent with prior year but was not expected in the current year due to RICS lifting their material uncertainty expectations. We therefore challenged this with the valuer and the material uncertainty has subsequently been lifted and the disclosure will be removed from the accounts.</p> <ul style="list-style-type: none"> We have engaged our own valuer to assist with our work and challenge in this area. We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. There have been no changes to the valuation method this year. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. We have considered the completeness and accuracy of the underlying information used to determine the estate, including reviewing and challenging the floor areas. We have discussed the appropriateness of the indices and assumptions used by the Council's valuer and are awaiting responses to our queries before we can conclude on this work, but have already identified some errors as set out on pages 11 and 12. 	TBC

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £903m (to be updated)	<p>The Council's net pension liability at 31 March 2021 is £903m (PY £600m) [comprising the Leicestershire County Council Local Government [and unfunded defined benefit pension scheme obligations]. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £514m net actuarial loss during 2020/21.</p> <p>As noted earlier in the report we are expecting a revised valuation from Hymans Robertson, which may impact the value of the net pension liability. However, we are not anticipating the assumptions to change. If they do, we will report our consideration of the revisions to the Council in a future iteration of this report.</p>	<ul style="list-style-type: none"> We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council. We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Leicestershire County Council Pension Fund valuation as it applies to Leicester City Council. <table border="1"> <thead> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> </thead> <tbody> <tr> <td>Discount rate</td><td>2.0%</td><td>1.95% - 2.05%</td><td>● (G)</td></tr> <tr> <td>Pension increase rate</td><td>2.85%</td><td>2.85% - 2.8%</td><td>● (G)</td></tr> <tr> <td>Salary growth</td><td>3.35%</td><td>2.8%-3.8% scheme specific</td><td>● (G)</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>45: 22.6 65: 21.7</td><td>21.8 – 24.3 20.4 – 22.7</td><td>● (G)</td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>45: 25.9 65: 24.2</td><td>25.2 -26.7 23.2 – 24.9</td><td>● (G)</td></tr> </tbody> </table> <ul style="list-style-type: none"> No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above. We are content with the adequacy of the disclosure of the estimate in the financial statements. <p>Pending receipt of the revised actuarial report we will review the reasonableness of the Council's share of the pension assets and the reasonableness of the movement in the estimate.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.0%	1.95% - 2.05%	● (G)	Pension increase rate	2.85%	2.85% - 2.8%	● (G)	Salary growth	3.35%	2.8%-3.8% scheme specific	● (G)	Life expectancy – Males currently aged 45 / 65	45: 22.6 65: 21.7	21.8 – 24.3 20.4 – 22.7	● (G)	Life expectancy – Females currently aged 45 / 65	45: 25.9 65: 24.2	25.2 -26.7 23.2 – 24.9	● (G)	TBC
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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions £14.2m At £9.4m NNDR appeals is the most significant element of the provisions balance.	The Council are responsible for repaying a proportion of successful rateable value appeals. Management uses an external organisation, Wilks, Head & Eve, to help inform the level of provision required. The Council's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. The provision has increased by £2.5m in 2020/21.	<ul style="list-style-type: none"> We have assessed management's expert and have no concerns over the competence, capabilities or objectivity of the expert used by the Council. The valuation method is consistent with prior year and consistency with sector norms. We have no concerns in relation to the calculation of the provision. The disclosure of the estimate in the financial statements is adequate. 	Light Purple
Land and Buildings – Council Housing - £1,062.5m	<p>The Council owns in excess of 20,000 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Wilks Head & Eve to complete the valuation of these properties, which is a newly engaged valuer with this year being their valuation for the Council.</p> <p>The year end valuation of Council Housing was £1,062.5m, a net increase of £61m from 2019/20 (£1,001.5m).</p>	<ul style="list-style-type: none"> We have engaged our own valuer to assist with our work and challenge in this area. We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. The housing stock has been divided using the external valuer's judgements and knowledge by applying the beacon methodology. This approach is consistent with the prior year albeit being provided by a different valuer. We have considered the indices that the valuer has used in performing the valuation and are in the process of discussing the appropriateness of these with the Council and its valuer. We have considered the completeness and accuracy of the underlying information used to determine the estimate. We have no matters to bring to your attention except for those already reported to you on page 12 of this report. 	Light Purple

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £13.0m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance and the Council's policy for the calculation of MRP is set out in its annual budget setting report presented to Council.</p> <p>The year-end MRP charge was £13.0m, a net increase of £2.8m from 2019/20.</p>	<p>We are assessing this estimate, considering:</p> <ul style="list-style-type: none"> whether the MRP has been calculated in line with the statutory guidance whether the Council's policy on MRP complies with statutory guidance. whether any changes to the authority's policy on MRP have been discussed and agreed with those charged with governance and have been approved by full council the reasonableness of the increase in MRP charge <p>Work on this area is ongoing as at the time of writing.</p>	TBC

Assessment

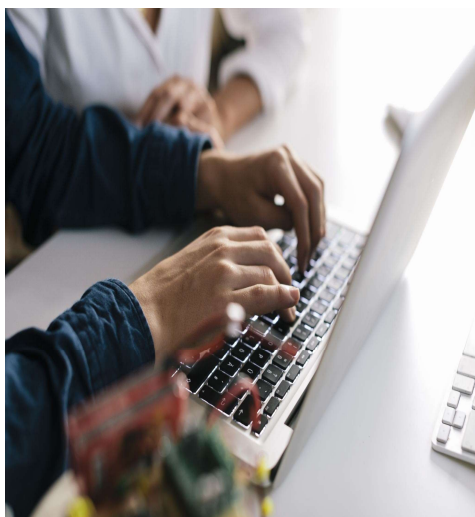
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2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Risk Committee. We have not been made aware of any incidents in the period other than those identified by the Counter Fraud Service, and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	<p>We are not aware of any related parties or related party transactions which have not been disclosed. A new related party transaction has been disclosed this year: as a result of the Council providing a loan to Leicestershire County Cricket Club, an officer from the Council has been appointed to the Board. However, Code guidance states that the fact that where there is a member of key management personnel in common or the fact that a member of key management personnel of one entity has significant influence over the other entity does not create a related party relationship. Where two entities have a member of key management personnel in common it is necessary to consider the possibility, and to assess the likelihood, that this person would be able to affect the policies of both entities in their mutual dealings.</p> <p>We have therefore asked officers to reconsider this disclosure to determine if the relevant criteria for a related party disclosure have been met.</p>
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is appended at Appendix E.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to those organisations with which it banks, borrows and in which it invests. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements: see Appendix C for the most significant amendments made to disclosures. In addition a small number of amendments were made to improve clarity for the reader.

2. Financial Statements - other communication requirements



Issue	Commentary
Audit evidence and explanations/ significant difficulties	<p>Management has been co-operative in providing information throughout the course of the audit.</p> <p><u>Management's assumptions and estimates</u></p> <p>The revised auditing standard in relation to estimates has led to heightened scrutiny over the estimates in the accounts, particularly property and pension valuations.</p> <p>For property valuations in particular, there has been significant enquiry and challenge with both sets of valuers over the inputs and assumptions applied, as discussed on pages 10 and 14, and our work in these areas is incomplete pending receipt of outstanding responses to our queries and our consideration thereof.</p>

2. Financial Statements - other communication requirements



Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p data-bbox="871 464 2051 603">In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p data-bbox="871 619 2011 671">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 983" style="list-style-type: none"> • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p data-bbox="871 999 2051 1137">Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul data-bbox="871 1153 1973 1297" style="list-style-type: none"> • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. <p data-bbox="871 1313 2051 1335">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1351 2051 1445" style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to the separate Committee agenda item.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We currently have nothing to report on these matters.</p>
Issue	Commentary
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the group reporting threshold, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>Note that we have been unable to commence this work as the guidance and reporting instructions have not yet been released. We are aware that the Council have recently been notified that the pack will not be made available to them until December.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020/21 audit of Leicester City Council in the audit report, as set out in the Audit and Risk Committee's separate agenda item, pending completion of the WGA work and issuance of our Auditor's Annual Report.</p>



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report before Christmas. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any potential risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the potential risk/s set out in the table below. Our work on this risk is underway and an update is set out below.

Risk of significant weakness	Work performed to date
<p>Financial Sustainability (risk as noted in our Audit Plan)</p> <p>The Authority has historically managed its finances well, but for several years the Council has been reporting significant medium-term financial challenges and this has been exacerbated by the pandemic: the Council has suffered loss of operational income, and has had to deal with the allocation, distribution and provision of emergency loans and grants at sometimes relatively short notice, while continuing to provide “business as usual” services such as social care and education.</p> <p>Future funding levels are particularly uncertain, with the Government's planned funding review and significant unknowns around future funding for social care services. While the budget for 2021/22 is in balance with the use of general reserves the budget gaps for 2022/23 and 2023/24 are £39.4m and £60.4m respectively (as at the time of writing our Audit Plan. Following Covid, the Council changed tack for the 2021/22 budget which was explicitly a “stop gap” budget, with the intention of a fuller budget review in time for 2022/23. The 2021/22 budget consequently required £17m of reserves. The work is now in hand to carry out a more fundamental budget review and look at bridging the forecast gap between spending and income of £40m in 2022/23.</p>	<p>We noted that we would review the Council's Medium Term Financial Statement and financial monitoring reports and assess the assumptions being used and savings being achieved.</p> <p>We have considered:</p> <ul style="list-style-type: none"> • how the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them • how the Council plans to bridge its funding gaps and identifies achievable savings • how the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities • how the Council ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system • how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans <p>We are in the process of drawing our findings together but have not identified any significant weaknesses from the work done to date.</p> <p>As part of our VFM work we have also considered the Council's governance arrangements, how it has responded to the Covid-19 pandemic and how it ensures economy, efficiency and effectiveness in its service delivery. We have conducted a comprehensive document review and have spoken to several officers of the senior leadership team, as well as the Mayor, and sought corroborating evidence to the discussions held about the arrangements in place. Again, we are in the process of drawing our findings together but have not identified any significant weaknesses from the work done to date.</p>

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention, in addition to that we have already drawn to your attention in our Audit Plan, which we report again below for ease of reference and for the purposes of completeness:

One member of the PSA Birmingham team has a close family member who works at the Council in the Highways Department. Having consulted with our Ethics team it would have been possible to put appropriate safeguards in place in order to mitigate any risks, had this individual been a part of the audit team. However, to avoid the perception of conflict we have determined to exclude the individual from the audit and confirm that they have not worked upon the audit.

We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, which were charged from the beginning of the financial year to September 2021, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Risk Committee. None of the services provided are subject to contingent fees.

Audit-related service	Fees £	Threats identified	Safeguards
Certification of Housing capital receipts grant	5,075 (expected)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is anticipated to be £5,075 in comparison to the total fee for the audit of £173,734 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Teachers Pension Return	5,550	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,500 in comparison to the total fee for the audit of £173,734 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	54,000 (expected)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is anticipated to be £54,000 in comparison to the total fee for the audit of £173,734 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 3 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<p>TBC</p> <p>The status of this finding is currently under review pending receipt of further information from management</p>	<p>Segregation of duty conflicts within i-Trent and Unit-4</p> <p>Administrative access to i-Trent and Unit 4 had been granted to users who have financial responsibilities.</p> <p>The combination of financial responsibilities with the ability to administer end-user security is considered a segregation of duties conflict. It increases the risk of these elevated privileges being used to make unauthorised changes to the application, business processes or user accounts by over-riding internal system controls, which could lead to fraud and/or financial misstatement.</p>	<p>It is recommended that:</p> <ol style="list-style-type: none"> 1. Management should consider reviewing access rights assigned to all system users to identify and remove conflicting access rights. 2. Management should adopt a risk-based approach to create and reassess the segregation of duty matrices on a periodic basis. This should consider whether the matrices continue to be appropriate or required updating to reflect changes within the business. 3. If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities [e.g. reviewing system reports of detailed transactions; selecting transactions for review of supporting documents; etc]. <p>Management response</p> <p>To be confirmed.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
High	<p>Valuation process of other land and buildings</p> <p>Errors continue to be identified in relation to the Council's valuation process, across a variety of areas such as typographical errors in valuation certificates, discrepancies between the information upon which the valuer has based their valuations and the information in Concerto (the Council's asset system), as well as the fixed asset register not being updated on a timely basis in respect of asset disposals (in the case of St Margaret's Bus Station).</p>	<p>It is recommended that officers and the valuer ensure that the information used in the valuation process is the most up to date. We also recommend that the valuer documents the rationale behind assumptions applied as the valuations are produced, to ensure that an audit trail is readily available.</p> <p>Secondly we recommend that officers are reminded of the need to notify finance such that any changes to the status of assets, such as them being demolished, or in the case of a capital project, when it's aborted, such that the appropriate financial amendments can be made.</p> <p>Management response</p>
Medium	<p>Useful economic lives of assets</p> <p>From review of the Council's fixed asset register, we have identified that there are 880 assets with a gross book value of £35.8m which have no remaining useful economic life.</p> <p>The net book value of these assets is £nil, so they have no impact on the financial statements, however this may be indicative that either:</p> <ul style="list-style-type: none"> there are assets in the fixed asset register that no longer belong to the Council; <p>or</p> <ul style="list-style-type: none"> the useful economic lives assigned to these assets were not appropriate. 	<p>We recommend that the Council review assets with on useful economic life remaining and take action as appropriate based on their findings.</p> <p>Management response</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Leicester City Council's 2019/20 financial statements, which resulted in 7 recommendations being reported in our 2019/20 Audit Findings report.

1 of these was reported as being complete in our Audit Plan.

We have followed up on the implementation of the remaining 6 recommendations and have rolled forward 2 for further consideration.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Valuation Process</p> <p>A number of errors were identified in relation to the Council's valuation process, across a variety of areas such as asset lives, typographical errors in valuation certificates and discrepancies in the valuation list and the fixed asset registered in terms of which valuations were processed. We recommended that the Council applies its own quality assurance processes on the valuations for future years such that any errors are identified and resolved prior to the audit process.</p>	<p>While our work on the valuation process is still underway at the time of writing, we have identified two errors from the work done to date.</p> <p>Therefore, we do not consider this recommendation to be fully addressed and have rolled this recommendation forward into this year's Action Plan, amending it accordingly to reflect the particular errors identified in the current year.</p>
✓	<p>Additions to Council Dwellings</p> <p>The valuation report for Council dwellings did not reflect Council Dwelling Asset additions made during the year. The Council attributed their own value to these properties, effectively including them at historic cost (using the purchase price) as a proxy for fair value. Our expectation is that the value of Council Dwellings recognised on the Balance Sheet is consistent with the valuation as reported by the Council's external valuer and should include the full housing stock as at the balance sheet date, i.e. including any additions purchased in year.</p> <p>We recommended that in future the Council seek to inform its valuers of any such changes in year to the housing stock to determine the impact of any on the valuation of Council Dwellings as at the balance sheet date.</p>	<p>We noted that there was a reconciling item between the value of Council Dwellings per the valuer's report and the financial statements to reflect the value of properties purchased between the date the data was passed to the valuer and the year end. This was £1.8m and as last year, has been valued based on purchase price adjusted by the social housing factor. The equivalent figure in the prior year was £10.2m as no additions information had been provided by the valuer all year. We are satisfied with the approach taken by the Council in applying fair value to the properties not reviewed by the valuer and consider this recommendation closed on the grounds that timing differences are to be expected.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Internal valuer's terms of engagement</p> <p>Our auditor's valuers advised us that from their review of the instructions provided that in respect of the internal valuer, whilst it may be that the Valuer has not issued the formal terms of engagement document in the past it is an area which has been under closer scrutiny in recent years by the RICS. They conclude that it is just as, or even more important, for an Internal Valuer to issue this document as there are additional areas within the legislation for terms of engagement which are specifically aimed at internal valuers (in relation to objectivity etc).</p> <p>Therefore, they recommended that within the instruction the client should ask for this document to be completed. This was duly produced but noted here so that this is considered as part of the arrangements going forward and an agreement drawn up as part of the process for future year-ends.</p>	<p>Terms of engagement were provided by the internal valuer in respect of the 2020/21 valuations.</p>
✓	<p>Declarations of interests</p> <p>We identified as part of our planning work in 2019/20 that there were a number of instances (albeit historic) of members not completing their declarations of interests. When we reviewed the related parties disclosures and compared them to companies house we identified some apparent discrepancies, which have been discussed with the Council, leading to interests in respect of three Councillors being updated. We recommend that all those who are required to declare interests are reminded of the need to update them on a real time basis.</p>	<p>While we did not identify any such recurrences as part of our 2020/21 planning work, we reported in our Audit Plan that we would keep this recommendation open until such time as we have concluded upon our work in this area for the financial statements.</p> <p>Having now completed this work, we have not identified any recurrences in respect of undeclared interests and therefore consider this action completed.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Value for Money and Other Areas		
Ongoing	<p>Review of savings and ongoing monitoring</p> <p>Council policy as part of the managed reserves strategy has been not to remove savings from budgets until they have been achieved, such that savings are not built into budgets that are not subsequently not achieved. The Council is aware that there needs to be monitoring of progress of savings that need to be achieved through the spending reviews.</p>	This is being considered as part of our 2020/21 work on value for money.
✓	<p>Fixed Penalty Notices</p> <p>As part of our audit we received information in respect of the Council's policies and operational procedures in respect of the issuing of Fixed Penalty Notices (FPNs) within the City Council's Wardens Services.</p> <p>We recommended that the Council reviews the suite of key performance indicators utilized in the Wardens Service to ensure that they fully meet the DEFRA Code of Practice on Litter and Refuse expectations in respect of performance being monitored and reported in terms of the impact the Council's actions are having in improving environmental cleanliness.</p>	The Deputy Director of Finance, divisional Director, Monitoring Officer and divisional standards lead considered this matter, and having discussed the steps taken with the Deputy Director of Finance and Monitoring Officer, we are satisfied that the matter has been addressed, and note that a review of performance measures for the services has been undertaken during the year.

Assessment

- ✓ Action completed
- X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021. Note that there are elements of our audit which are still underway as at the time of writing and therefore there could be further amendments required.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure £'000
Derecognition of St Margaret's Bus Station	-	-10.1m	-
Derecognition of the Waterside assets under construction	TBC	-2.5m	TBC
Overall impact	£TBC	-£12.6m	£TBC

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission/misclassification	Adjusted?
<p>Note 8</p> <p>£36.4m shown against taxation and non-specific grant income, which should be £75.2m with the corresponding difference going to Corporate items. This is a disclosure item only.</p> <p>This amendment was identified by officers but is noted here as it represents a change from the draft accounts.</p>	TBC pending receipt and review of revised financial statements.
<p>Note 35 Grant Income</p> <p>Items in the note for total credited to services and total recognised in year for prior year did not match to the prior year accounts leading to a difference of £11m. This was due to lines being deleted in error from the draft accounts. These have been reinstated</p>	

C. Audit Adjustments

Misclassification and disclosure changes (continued)

Disclosure omission/misclassification

Adjusted?

Material uncertainties

Material uncertainties were disclosed in the accounts in respect of the valuation of other land and building and the property assets in the pension fund. For the latter of these this had been erroneously rolled forward from the prior year accounts. For the former, the valuer has updated his opinion based on revised RICs guidance and has determined that his valuation is no longer issued on the basis of material uncertainty.

Better Care Fund

Comparatives for the year ending 31 March 2020 have been added to the Better Care fund disclosure within the Pooled Budgets note.

Heritage assets

It was reported that there had been a change in methodology during the year. However, this change was reported last year and therefore had been rolled forward erroneously. This wording has now been updated.

TBC pending receipt and review of revised financial statements.

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit and Risk Committee is required to approve management's proposed treatment of all items recorded within the table below. Note that there are elements of our audit which are still underway as at the time of writing and therefore there could be further amendments required.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
TBC	TBC	TBC	TBC	TBC
TBC	TBC	TBC	TBC	TBC
Overall impact	£X,XXX	£X,XXX	£X,XXX	

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Assets not valued There was £27.4m of other land and buildings that were not subject to revaluation as at 31 March 2020. 4 additional assets were subsequently revalued which would have the effect of increasing the Council's other land and buildings by £9.3m	-	Increase valuation by £9.3m Increase revaluation reserve by £9.3m	-	superseded by current year valuation

C. Audit Adjustments



Impact of prior year unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure £'000	Reason for not adjusting
Valuations not processed During our reconciliation of the valuer's certificates to the fixed asset register we identified assets which had not been processed but should have been. Had these adjustments been processed the value of the Council's other land and buildings would have increased by £2.5m.	-	Increase valuation by £2.5m Increase revaluation reserve by £2.5m	-	superseded by current year valuation
Valuation errors As a result of various errors identified as part of our sample testing of valuations it was identified that the Council's other land and buildings are undervalued by £1.224m.	-	Increase valuation by £1.2m Increase revaluation reserve by £1.2m	-	superseded by current year valuation
Overall impact	£-	£13m	£-	

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	£173,734	£173,734*
Total audit fees (excluding VAT)	£173,734	£173,734

* See overleaf for a breakdown of the fee. This information was provided in our Audit Plan but is reproduced overleaf for completeness.

The disclosure in Note 33 of the accounts is as follows and with the exception of rounding we are satisfied that statutory fees as well as non-audit fees for other services as set out in this report, reconciles to the financial statements, with the exclusion of the proposed uplift of £23k between prior year's actual fees of £150,167 and current year fees of £173,734 as it is not yet agreed and is subject to approval by PSAA.

	Restated 2019/20	2020/21
	£000	£000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	150	150
Fees payable for the certification of grant claims and returns for the year	54	54
Fees payable in respect of other services provided during the year	11	11
Total	215	215

Non-audit fees for other services	Fees**
Audit Related Services:	
• Housing capital receipts	£5,075
• Teachers Pension Return	£5,500
• Housing Benefit Subsidy Claim	£54,000
Total non-audit fees (excluding VAT)	£64,575

** These are proposed fees as the work in respect of these grant claims is either incomplete or has not yet commenced. Therefore we are not in a position to confirm final fees as at the time of writing.

D. Fees – detailed analysis

Scale fee published by PSAA		£112,884
Ongoing increases to scale fee first identified in 2019/20		
Raising the bar/regulatory factors	£5,000	
Enhanced audit procedures for Property, Plant and Equipment	£4,350	
Property, Plant and Equipment: appointment of auditor's expert	£5,000	
Enhanced audit procedures for Pensions	£3,500	
Recurring element of 2019/20 fee		£17,850
New issues for 2020/21		
Additional work on Value for Money (VfM) under new NAO Code	£26,000	
Increased audit requirements of revised ISAs	£17,000	
Proposed increase to agreed recurring 2019/20 fee		£43,000
Total audit fees (excluding VAT)		£173,734

E. Management Letter of Representation

Leicester City Council

Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Leicester City Council for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of the net pension liability and the valuation of land and buildings. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

E. Management Letter of Representation (continued)

- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :
 - a. the nature of the Council means that, notwithstanding any intention to liquidate the Council or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern will still provide a faithful representation of the items in the financial statements

- b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
- c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

Information Provided

- xv. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

E. Management Letter of Representation (continued)

- a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
 - xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
 - xxii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
 - xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxiv. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Risk Committee at its meeting on 29 September 2021.

F. Audit letter in respect of delayed VFM work

Note that this letter does not form part of our formal communications under ISA 260 (Communication with Those Charged with Governance) but is included here for ease of reference.

Councillor Manjit Kaur Saini
Audit and Risk Committee Chair
Leicester City Council
115 Charles Street
Leicester
LE1 1FZ

Dear Councillor Manjit Kaur Saini, Chair of Audit and Risk Committee as TCWG,

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 December 2021.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Grant Patterson

Director and Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

